



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Holding Company: Redwood Financial, Inc. Subsidiary: HomeTown Bank

Person to be contacted regarding this report:	Dean K. Toft, President/CEO
CPP Funds Received:	\$2,995,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	1/9/2009
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	
Holding Company Docket Number: (For Thrift Holding Companies)	H-2478
FDIC Certificate Number: (For Depository Institutions)	6278
City:	Redwood Falls
State:	Minnesota

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	
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<input type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	
<input type="checkbox"/>	Make other investments	
<input type="checkbox"/>	Increase reserves for non-performing assets	

<input type="checkbox"/>	Reduce borrowings	
<input type="checkbox"/>	Increase charge-offs	
<input checked="" type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	On 7-9-09, HomeTown Bank (HTB), a wholly owned subsidiary of Redwood Financial, Inc. purchased the Jordan, MN branch office of Flagship Bank Minnesota. In order to keep the HomeTown Bank equity ratio 8.00%, Redwood Financial, Inc. injected \$ 2 million of TARP CPP funds into HTB.
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	The balance of the TARP CPP funds, approximately \$995,000, is being held as capital in Redwood Financial, Inc. to support further lending activities or to be used for possible acquisitions.

What actions were you able to avoid because of the capital infusion of CPP funds?

The capital infusion of CPP funds has enabled the holding company, Redwood Financial, Inc., to avoid requiring dividend payments from HomeTown Bank to the holding company to support holding company activities. This has allowed HomeTown Bank more capital to support lending activities.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

Because of the infusion of CPP funds, HomeTown Bank was able to purchase a branch office in Jordan, MN that added about \$23 million of total deposits and about \$ 12 million in loans. This also helped the selling bank bolster it's capital position. In addition, HomeTown Bank increased its total loan volume from about \$ 104 million at the beginning of 2009 to about \$ 120 million at the end of 2009, a 15% increase. Factoring out the \$ 12 million in loans acquired in the Jordan, MN purchase, total lending still increased about \$ 4 million or 3.7% in 2009.

Without the CPP funds, Redwood Financial, Inc. would not have had the necessary funds, either internally or from external sources, to inject into HownTown Bank to make the Jordan, MN purchase.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

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According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.